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USTR Disappointed in Japan's Proposal to Address High Telecommunications Rates

The Office of the United States Trade Representative and other U.S. agencies (the Departments of Commerce and State and the Federal Communications Commission) expressed disappointment with the Ministry of Posts and Telecommunications' (MPT) proposed system for reducing telecommunications rates in Japan, in comments filed on August 26.

"The system Japan is proposing would continue to keep interconnection rates up to eight times higher than those available in competitive markets, like the United States" said United States Trade Representative Charlene Barshefsky. "It is simply not credible that costs in Japan are that much higher. This proposal leaves serious doubts that Japan is implementing a truly market-based approach for determining access costs, which it agreed to develop in the May 1998 U.S.-Japan Deregulation Report."

"We urge MPT to revise its access charge system to reflect true market-based costs – the only costs competitors should bear. By failing to do so, MPT would continue to protect NTT by approving excessive interconnection charges. Inflated interconnection rates impose a significant burden on new service providers, stifle new investment and innovative services, and will ensure that Japan lags behind other advanced countries in growth areas such as Internet usage and electronic commerce."

Background

The proposed system, which Japan agreed to develop in May 1998 under the U.S.-Japan Enhanced Initiative on Deregulation and Competition Policy, is intended to introduce market-based prices for access to telecommunications networks dominated by government owned carrier, Nippon Telegraph and Telephone Company (NTT). Japan agreed to develop a system to set rates that competitors pay for completing calls onto NTT's network based on market-oriented prices, through a methodology known as Long Run Incremental Cost (LRIC). Japan pledged to introduce such rates in the year 2000. A Working Group under the Ministry of Posts and Telecommunications announced a preliminary version of the model for determining the such rates in early August. While the model suggests costs for some forms of access should decline moderately, other reductions are negligible.

Comments on MPT's proposal were due on August 26. Experts from the United States and other countries, after extensive analysis of the proposed system, have provided constructive comments on the proposal. These comments are available on the USTR Website at www.ustr.gov. These experts have identified numerous flaws in the model contributing to these excessive rates, which, if corrected, would yield more credible results.

A key suggestion in the U.S. comments was that MPT should revise its model to ensure that competitors do not have to pay for NTT's fixed costs, which do not vary with the amount of traffic they send to NTT. The U.S. also suggested that, where open data about market based costs is not available in Japan, MPT should use data available from other markets, rather than relying on proprietary data provided by NTT.

The U.S. also urged MPT to reject an alternate model proposed by NTT, which would have almost no effect of reducing rates and would clearly be inconsistent with Japan's 1998 pledge.